

**TESTIMONY OF KEVIN B. SULLIVAN  
COMMISSIONER  
DEPARTMENT OF REVENUE SERVICES  
APPROPRIATIONS COMMITTEE  
February 25, 2011**

Senator Harp, Representative Walker, Senator Kane, Representative Minor and members of the Appropriations Committee, I am Kevin Sullivan, Commissioner of our Department of Revenue Services. Thank you for this opportunity to begin resolving our budget for the new fiscal biennium.

This is one legislative committee where it's literally true that I have sat where you sit. So I appreciate what you have to do. Governor Malloy has proposed a tough but smart and honest plan. Based on his proposed budget, DRS is ready to work with you and do our part to help resolve the state's budget crisis and rebuild our fiscal stability.

President Franklin Roosevelt said, "Taxes...are dues that we pay for the privileges of membership in an organized society." Then again, Mark Twain said, "I shall never use profanity except in discussing...taxes." *Both* messages guide us in our work at the Department of Revenue Services.

DRS currently administers 42 tax types, collecting some \$12.6 billion last year. Cumulatively, we process over 4.4 million tax returns each year. Through our Taxpayer Advocate and Taxpayer Service Center, we handle 2.2 million inquiries and complaints. We provide informational publications, process returns, collect taxes and remit refunds. Through the collection of overdue accounts, a one-time settlement incentive program, voluntary disclosure agreements, non-filer income tax compliance and enforcement, DRS brought in over \$220 million last year. That's real revenue for the state and real fairness for all the other taxpayers.

DRS is your front line in assuring that the appropriations you approve will be paid for, fully and fairly. Yet, the staffing level at DRS is already 12% less than a decade ago. As your legislative Commission on Enhancing Agency Outcomes recently reported, our productivity in collections, enforcement and audit alone returns to the state over \$215,000 for every position filled. *In effect, investing more in DRS costs the state less and investing less costs the state more.* New and expanded state taxes are only as good as the states ability to collect them.

DRS is also a LEAN agency engaged in continuously improving how we do our business and focus on results based accountability. Both are key to what we are already doing to control costs and improve productivity. Let me just share a few of the initiatives underway at DRS:

- Developing internal metrics that rely less on measures of what we do and more on getting the results we want, especially in improving voluntary taxpayer compliance.
- By using electronic filing and electronic payments as much as we are authorized to do, we expect the current tax year to be a record for both – resulting in reduced costs and increased collections. This is matched by more on-line taxpayer information resources and by greater use of virtual audits.
- Our most recent review with IRS for security compliance complimented our high security standards and practices.
- DRS is focusing much more on early intervention with respect to tax delinquencies as well as cleaning up record information so that we can cut the cost of erroneous mailings.
- We continue to strengthen peer relationships with professional organizations like the Connecticut Society of Certified Public Accountants and the Tax Section of the Connecticut Bar Association in order to avoid misunderstanding and improve voluntary compliance. This also means more of a “plain language” approach and emphasizing consistency in our interaction with taxpayers.
- I am restarting an internal process called “Quick Hits” to provide a forum for employee suggestions.
- We have reached out to the Secretary of the State to solve, once and for all, the wasteful mismatch of our respective data bases of state business entities.
- DRS is also proposing legislation to be sure that those seeking licenses, benefits or payments of any kind from the state must first resolve outstanding tax deficiencies.

Now, let me speak more directly to our Governor’s proposed budget for DRS and the questions this Committee has shared with us:

- There are no painless cuts but we understand that this budget cannot be balanced without cuts. As proposed, the new budget clearly reflects options DRS was required to submit and generally avoids reductions that would most adversely affect tax collections. However, consistent with RBA and with Governor Malloy’s commitment to more accountability and less micro-management, we ask that you make your adjustments at the line item level without programmatic specifications in the budget, the “back of the budget” or the accompanying committee narrative. Give us what you believe is a workable bottom-line but, then, *please* leave us with the flexibility and accountability at the agency level to manage to results.

- The reassignment of 3 incumbent positions from DOIT to the agency is a very positive step in improving efficiency and management. These positions will especially help us to improve the capacity of our Integrated Tax Administration System (ITAS).
- The Governor proposes a state piggybacked Earned Income Tax Credit to give a hand-up to lower income working families and put more consumer spending back into the state economy. The 11 new positions to administer the program are much less than Massachusetts added when adopting its EITC but no less essential given the 20-25% fraud rate associated with existing federal and state EITCs. As noted in OFA's recent synopsis report, there are other added administration, collection and enforcement responsibilities as a result of revenue initiatives such as retail sales tax disaggregation for purposes of municipal aid, the cabaret tax and the hospital tax.
- Over a quarter million dollars each fiscal year reflects roll out of the previously mentioned efforts to reduce mailing and processing of paper forms.
- Finally, we are very pleased and excited that the Governor has endorsed our plan for a major productivity improvement. This risk-scoring initiative will provide real-time analysis and prioritization to focus collections on the most likely cases with the highest yield to the state. This investment of \$740,000 is projected to produce \$6 million more in FY2012 and \$18 million more when annualized in FY2013.

In closing, let me thank you for your consideration today. We look forward to more detailed discussion with Senator Hartley, Representative Genga, Senator Kane, Representative Hwang and the members of the General Government B Subcommittee.